

104TH CONGRESS
1ST SESSION

H. R. 487

To improve the single family housing mortgage insurance program of the
Department of Housing and Urban Development.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 11, 1995

Mr. ORTON introduced the following bill; which was referred to the Committee
on Banking and Financial Services

A BILL

To improve the single family housing mortgage insurance
program of the Department of Housing and Urban De-
velopment.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “FHA Modernization
5 and Efficiency Act of 1995”.

6 **SEC. 2. CONGRESSIONAL FINDINGS.**

7 The Congress finds that—

8 (1) the single family housing mortgage insur-
9 ance program of the Department of Housing and
10 Urban Development is a significant factor in pro-

1 moting first-time and affordable homeownership in
2 the United States;

3 (2) use of mortgage financing under the pro-
4 gram has decreased in recent years, due in part to
5 increasing complexity of mortgage origination and
6 servicing under the program;

7 (3) simplifying and streamlining the loan cri-
8 teria and loan approval process under the program
9 would have a positive effect on use of the program
10 without increasing risk to the Mutual Mortgage In-
11 surance Fund; and

12 (4) flexible lending products can be developed
13 without increasing risk to the Mutual Mortgage In-
14 surance Fund.

15 **SEC. 3. MAXIMUM MORTGAGE AMOUNT FLOOR FOR SINGLE**
16 **FAMILY MORTGAGE INSURANCE.**

17 Subparagraph (A) of the first sentence of section
18 203(b)(2) of the National Housing Act (12 U.S.C.
19 1709(b)(2)(A)) is amended by striking “the greater of”
20 and all that follows through “applicable size” and insert-
21 ing the following: “50 percent of the dollar amount limita-
22 tion determined under section 305(a)(2) of the Federal
23 Home Loan Mortgage Corporation Act (as adjusted annu-
24 ally under such section) for a residence of the applicable
25 size”.

1 **SEC. 4. CALCULATION OF DOWNPAYMENT.**

2 Section 203(b)(2) of the National Housing Act (12
3 U.S.C. 1709(b)(2)) is amended—

4 (1) by striking subparagraph (B) and inserting
5 the following new subparagraph:

6 “(B) except as otherwise provided in this
7 paragraph (2), not in excess of—

8 “(i) in the case of a mortgage for a
9 property with an appraised value equal to
10 or less than \$50,000, 98.75 percent of the
11 appraised value of the property,

12 “(ii) in the case of a mortgage for a
13 property with an appraised value in excess
14 of \$50,000 but not in excess of \$125,000,
15 97.65 percent of the appraised value of the
16 property,

17 “(iii) in the case of a mortgage for a
18 property with an appraised value in excess
19 of \$125,000, 97.15 percent of the ap-
20 praised value of the property, or

21 “(iv) notwithstanding clauses (ii) and
22 (iii), in the case of a mortgage for a prop-
23 erty with an appraised value in excess of
24 \$50,000 and which is located in a State for
25 which the average closing cost exceeds 3.25
26 percent of the average, for the State, of

1 the sale price of properties located in the
2 State for which mortgages have been exe-
3 cuted, 97.75 percent of the appraised value
4 of the property,
5 plus the amount of the mortgage insurance pre-
6 mium paid at the time the mortgage is in-
7 sured.”;

8 (2) in the 1st sentence of the matter following
9 subparagraph (B), by inserting before the period at
10 the end the following: “, and the term ‘average clos-
11 ing cost’ means, with respect to a State, the average,
12 for mortgages executed for properties that are lo-
13 cated within the State, of the total amounts (as de-
14 termined by the Secretary) of initial service charges,
15 appraisal, inspection, and other fees (as the Sec-
16 retary shall approve) that are paid in connection
17 with such mortgages”;

18 (3) by striking the 2d sentence of the matter
19 following subparagraph (B); and

20 (4) in penultimate undesignated paragraph—

21 (A) in the 2d sentence, by striking “the
22 preceding sentence” and inserting “this sub-
23 section”; and

24 (B) by striking the 1st sentence.

1 **SEC. 5. ELIMINATION OF RESTRICTIONS REGARDING NEW**
2 **CONSTRUCTION.**

3 (a) IN GENERAL.—Section 203(b)(2) of the National
4 Housing Act (12 U.S.C. 1709(b)(2)) is amended, in the
5 matter following subparagraph (B)—

6 (1) in the 1st undesignated paragraph, by strik-
7 ing “Notwithstanding any other provision of this
8 section,” and all that follows through “beginning of
9 construction.”; and

10 (2) by striking the 2d undesignated paragraph
11 (relating to mortgage insurance amounts for resi-
12 dences having solar energy systems).

13 (b) REPEAL OF AUTHORITY TO EXPEND AMOUNTS
14 FROM INSURANCE FUND TO CORRECT SUBSTANTIAL DE-
15 FECTS.—Section 518 of the National Housing Act (12
16 U.S.C. 1735b) is hereby repealed.

17 **SEC. 6. AUTHORITY TO USE AMOUNTS BORROWED FROM**
18 **FAMILY MEMBERS FOR DOWNPAYMENTS.**

19 (a) IN GENERAL.—Section 203(b)(9) of the National
20 Housing Act (12 U.S.C. 1709(b)(9)) is amended by insert-
21 ing before the period at the end the following: “: *Provided*
22 *further*, That for purposes of this paragraph, the Secretary
23 shall consider as cash or its equivalent any amounts bor-
24 rowed from a family member (as such term is defined in
25 section 201), subject only to the requirements that, in any
26 case in which the repayment of such borrowed amounts

1 is secured by a lien against the property, such lien shall
2 be subordinate to the mortgage and the sum of the prin-
3 cipal obligation of the mortgage and the obligation secured
4 by such lien may not exceed 100 percent of the appraised
5 value of the property plus any initial service charges, ap-
6 praisal, inspection, and other fees in connection with the
7 mortgage”.

8 (b) DEFINITION OF FAMILY MEMBER.—Section 201
9 of the National Housing Act (12 U.S.C. 1707) is amended
10 by adding at the end the following new subsections:

11 “(e) The term ‘family member’ means, with respect
12 to a mortgagor under such section, a child, parent, or
13 grandparent of the mortgagor (or the mortgagor’s
14 spouse). In determining whether any of the relationships
15 referred to in the preceding sentence exist, a legally adopt-
16 ed son or daughter of an individual (and a child who is
17 a member of an individual’s household, if placed with such
18 individual by an authorized placement agency for legal
19 adoption by such individual), and a foster child of an indi-
20 vidual, shall be treated as a child of such individual by
21 blood.

22 “(f) The term ‘child’ means, with respect to a mort-
23 gagor under such section, a son, stepson, daughter, or
24 stepdaughter of such mortgagor.”.

1 **SEC. 7. APPROVAL OF CONDOMINIUM PROJECTS.**

2 Section 234 of the National Housing Act (12 U.S.C.
3 1715y) is amended by striking subsection (k) and insert-
4 ing the following new subsection:

5 “(k) APPROVAL OF PROJECTS.—

6 “(1) IN GENERAL.—A mortgage covering a
7 multifamily project or a condominium unit in a mul-
8 tifamily project shall be eligible for mortgage insur-
9 ance under this section notwithstanding any other
10 provision of this section relating to requirements for
11 multifamily projects if the project has been approved
12 by a government-sponsored housing enterprise and—

13 “(A) in the case of a mortgage covering
14 any condominium unit in the project, the mort-
15 gage otherwise complies with the requirements
16 under this section regarding eligibility of mort-
17 gages for mortgage insurance provided under
18 subsection (c); and

19 “(B) in the case of a blanket mortgage
20 covering the multifamily project, the mortgage
21 otherwise complies with the requirements under
22 this section regarding eligibility of mortgages
23 for mortgage insurance provided under sub-
24 section (d).

25 “(2) DEFINITIONS.—For purposes of this sub-
26 section, the following definitions shall apply:

1 “(A) The term ‘approved by a government-
2 sponsored housing enterprise’ means, with re-
3 spect to a multifamily housing project having a
4 condominium ownership structure, that a gov-
5 ernment-sponsored housing enterprise has de-
6 termined that any mortgage covering the
7 project or any condominium property in the
8 project may be purchased by the enterprise if
9 such mortgage is otherwise determined by the
10 enterprise to meet the standards and require-
11 ments of the enterprise relating to mortgages.

12 “(B) The term ‘condominium unit’ means,
13 with respect to a multifamily property, a 1-fam-
14 ily dwelling unit in the project and an undivided
15 interest in the common areas and facilities that
16 serve the project.

17 “(C) The term ‘government-sponsored
18 housing enterprise’ means—

19 “(i) the Federal National Mortgage
20 Association; and

21 “(ii) the Federal Home Loan Mort-
22 gage Corporation.”.

1 **SEC. 8. DELEGATION OF SINGLE FAMILY MORTGAGE IN-**
2 **SURING AUTHORITY TO DIRECT ENDORSE-**
3 **MENT MORTGAGEES.**

4 Title II of the National Housing Act (12 U.S.C. 1707
5 et seq.) is amended by adding at the end the following
6 new section:

7 “DELEGATION OF INSURING AUTHORITY TO DIRECT
8 ENDORSEMENT MORTGAGEES

9 “SEC. 256. (a) AUTHORITY.—The Secretary may del-
10 egate, to one or more mortgagees approved by the Sec-
11 retary under the direct endorsement program, the author-
12 ity of the Secretary under this Act to insure mortgages
13 involving property upon which there is located a dwelling
14 designed principally for occupancy by 1 to 4 families.

15 “(b) CONSIDERATIONS.—In determining whether to
16 delegate authority to a mortgagee under this section, the
17 Secretary shall consider the experience and performance
18 of the mortgagee under the direct endorsement program,
19 the default rate of insured mortgages originated by the
20 mortgagee compared to the default rate of all insured
21 mortgages in comparable markets, and such other factors
22 as the Secretary determines appropriate to minimize risk
23 of loss to the insurance funds under this Act.

24 “(c) ENFORCEMENT OF INSURANCE REQUIRE-
25 MENTS.—

1 “(1) IN GENERAL.—If the Secretary determines
2 that a mortgage insured by a mortgagee pursuant to
3 delegation of authority under this section was not
4 originated in accordance with the requirements es-
5 tablished by the Secretary, and the Secretary pays
6 an insurance claim with respect to the mortgage
7 within a reasonable period specified by the Sec-
8 retary, the Secretary may require the mortgagee ap-
9 proved under this section to indemnify the Secretary
10 for the loss.

11 “(2) FRAUD OR MISREPRESENTATION.—If
12 fraud or misrepresentation was involved in connec-
13 tion with the origination, the Secretary may require
14 the mortgagee approved under this section to indem-
15 nify the Secretary for the loss regardless of when an
16 insurance claim is paid.

17 “(d) TERMINATION OF MORTGAGEE’S AUTHORITY.—
18 If a mortgagee to which the Secretary has made a delega-
19 tion under this section violates the requirements and pro-
20 cedures established by the Secretary or the Secretary de-
21 termines that other good cause exists, the Secretary may
22 cancel a delegation of authority under this section to the
23 mortgagee by giving notice to the mortgagee. Such a can-
24 cellation shall be effective upon receipt of the notice by
25 the mortgagee or at a later date specified by the Secretary.

1 A decision by the Secretary to cancel a delegation shall
2 be final and conclusive and shall not be subject to judicial
3 review.

4 “(e) REQUIREMENTS AND PROCEDURES.—Before ap-
5 proving a delegation under this section, the Secretary shall
6 issue regulations establishing appropriate requirements
7 and procedures, including requirements and procedures
8 governing the indemnification of the Secretary by the
9 mortgagee.”.

10 **SEC. 9. INSURANCE OF 2-STEP SINGLE FAMILY MORT-**
11 **GAGES.**

12 Title II of the National Housing Act (12 U.S.C. 1701
13 et seq.), as amended by the preceding provisions of this
14 Act, is further amended by adding at the end the following
15 new section:

16 “2-STEP SINGLE FAMILY MORTGAGES

17 “SEC. 257. (a) AUTHORITY.—After making the find-
18 ing required under subsection (d), the Secretary may in-
19 sure under any provision of this title a mortgage involving
20 property upon which there is located a dwelling designed
21 principally for occupancy by 1 to 4 families, where the
22 mortgage provides that the effective rate of interest
23 charged is—

24 “(1) fixed for the duration of a specified period
25 that consists of not less than the first 5 years of the
26 mortgage term;

1 “(2) adjusted by the mortgagee upon the expi-
2 ration of the specified period referred to in para-
3 graph (1) for the mortgage; and

4 “(3) for the term of the mortgage remaining
5 after such adjustment—

6 “(A) fixed at the adjusted rate established
7 pursuant to paragraph (2); or

8 “(B) periodically adjusted by the mortga-
9 gee.

10 “(b) REDETERMINATION OF RATE.—For each mort-
11 gage insured pursuant to this section, the adjustment of
12 the effective rate of interest pursuant to subsection (a)(2)
13 may be accomplished through adjustments in the monthly
14 payment amount, the outstanding principal balance, or the
15 mortgage term, or a combination of such factors, except
16 that in no case may any extension of a mortgage term
17 result in a total term in excess of 40 years. The adjust-
18 ment in the effective rate of interest shall correspond to
19 a specified national interest rate index that is approved
20 in regulations issued by the Secretary and information on
21 which is readily accessible to the mortgagors from gen-
22 erally available published sources.

23 “(c) LIMITATIONS ON SECOND-STEP PERIODIC
24 RATES.—For each mortgage insured pursuant to this sec-
25 tion for which the effective rate of interest charged pursu-

1 ant to subsection (a)(3) is periodically adjusted under sub-
2 paragraph (B) of such subsection, such adjustments in the
3 interest rate—

4 “(1) may be accomplished through adjustments
5 in the monthly payment amount, the outstanding
6 principal balance, or the mortgage term, or a com-
7 bination of such factors, except that in no case may
8 any extension of a mortgage term result in a total
9 term in excess of 40 years;

10 “(2) shall correspond to a specified national in-
11 terest rate index that is approved in regulations is-
12 sued the Secretary and information on which is
13 readily accessible to the mortgagors from generally
14 available published sources;

15 “(3) shall be made on an annual basis;

16 “(4) shall be limited, with respect to any single
17 interest rate increase, to no more than 1 percent on
18 the outstanding loan balance; and

19 “(5) be limited to a maximum increase of 5 per-
20 centage points above the initial contract interest rate
21 over the term of the mortgage.

22 “(d) CONDITIONS ON INSURING AUTHORITY.—The
23 Secretary may insure mortgages pursuant to this section
24 only after determining that the risk posed by such insur-
25 ance to the financial safety and soundness of the insurance

1 fund of which the mortgage insurance is an obligation does
2 not exceed such risk posed by insurance of mortgages of
3 equivalent terms having fixed interest rates over such
4 terms.

5 “(e) DESCRIPTION OF FEATURES.—The Secretary
6 shall issue regulations requiring that the mortgagee make
7 available to the mortgagor, at the time of loan application,
8 a written explanation of the features of the 2-step mort-
9 gage insured pursuant to this section.

10 “(f) LIMITATION OF TOTAL NUMBER OF MORTGAGES
11 INSURED.—The aggregate number of mortgages and
12 loans insured pursuant to this section in any fiscal year
13 may not exceed 10 percent of the aggregate number of
14 mortgages and loans insured by the Secretary under this
15 title during the preceding fiscal year.”.

○